

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

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Person To Contact: _____, ID No. _____

Telephone Number: _____

Refer Reply To:
CC:PA:02
PLR-130064-14

Date:
May 27, 2015

LEGEND

Taxpayer: _____

Customers: _____

Dear _____:

This is in response to your ruling request submitted by your authorized representative concerning the federal income tax reporting requirements for Taxpayer under section 6050W of the Internal Revenue Code (Code) and the regulations thereunder. Specifically, Taxpayer requested a ruling that Taxpayer is not a third party settlement organization operating a third party payment network and therefore does not have an information reporting obligation under section 6050W.

FACTS

Taxpayer is an _____ company providing, among other services, _____ services to its Customers through its _____ websites, _____. Through the use of these sites, Customers can search and compare information _____ from third-party _____ providers.

Taxpayer's Agreements With Customers

Through separate agreements with Customers and Providers, Taxpayer
 with Providers on behalf of Customers. Taxpayer enters
 into agreements with Customers, in which it agrees to
 with Providers. As part of these arrangements, Taxpayer agrees to make
 payment to Providers of goods and services. Taxpayer also provides ancillary services,
 such as

Taxpayer determines the amount charged to Customers for Providers' goods and
 services; Provider has no control over, or knowledge of, this amount.

Payments made by Customers to Taxpayer for goods and services to be provided by
 Providers are primarily made by credit card, debit card, or through a third party.
 Taxpayer acknowledges that these transactions between Taxpayer and Customers are
 payment card transactions or third party network transactions subject to information
 reporting under section 6050W. The relevant merchant acquiring entity, electronic
 payment facilitator, or third party settlement organization issues Forms 1099-K to
 Taxpayer.

*Taxpayer's Agreements With Providers**Generally*

Taxpayer also enters into agreements with Providers, through which Taxpayer
 of the Providers' goods and services.
 Customers are not a party to the agreements between Taxpayer and Providers. Under
 these agreements, Providers agree to provide

for
 purchase by Customers and agree to made by Customers through
 Taxpayer.

Taxpayer agrees to pay Providers the
 generally after the goods or services have been provided. Some Providers have
 different payment terms, such as requiring payment by the Taxpayer
 . Providers typically send periodic invoices to Taxpayer, which are paid by
 Taxpayer's accounts payable department by automated clearinghouse network, wire
 transfer, or check. In addition, a substantial number of payment transactions
 with Providers are conducted using virtual credit cards.¹

¹ Taxpayer acknowledges that these virtual credit card transactions are reportable under section 6050W. Taxpayer believes that the merchant acquiring entity that processes the virtual credit card payments is responsible for reporting with respect to these transactions. We express no opinion as to reporting obligations with respect to the virtual credit card payments, as they are outside the scope of this ruling.

has a contract with a single Provider which provides all goods and services purchased through . contract with its Provider specifically prohibits it from entering into contractual relationships with additional Providers. In all other ways, agreement with its Provider resembles the agreements discussed above.

LAW AND ANALYSIS

Section 6050W

Section 6050W of the Code, as enacted by the Housing Assistance Tax Act of 2008, requires payment settlement entities to file an information return for each calendar year with respect to payments made in settlement of reportable payment transactions. Section 6050W covers two types of transactions: (1) payment card transactions and (2) third party network transactions. A payment settlement entity in the payment card context is a merchant acquiring entity; in the third party network context, it is a third party settlement organization (TPSO). I.R.C. § 6050W(b)(1).

The Code and regulations define a merchant acquiring entity as the bank or other organization with the contractual obligation to make payments to participating payees in payment card transactions. A payment card transaction is any transaction in which a payment card is accepted as payment. I.R.C. §§ 6050W(b)(2)-(3), 6050W(c)(3); Treas. Reg. § 1.6050W-1(b)(1)-(2).

The Code and regulations define a TPSO as the central organization that has the contractual obligation to make payments to the participating payees of third party network transactions. I.R.C. § 6050W(b)(3); Treas. Reg. § 1.6050W-1(c)(2). A third party network transaction is any transaction that is settled through a third party payment network. I.R.C. § 6050W(c)(3). A central organization is a TPSO with a reporting obligation if it provides a third party payment network that allows purchasers to transfer funds to providers of goods and services. Treas. Reg. § 1.6050W-1(c)(2).

A third party payment network is any agreement or arrangement that (i) involves the establishment of accounts with a central organization by a substantial number of providers of goods or services who are unrelated to the central organization and who have agreed to settle transactions for the provision of goods or services with purchasers according to the terms of agreements; (ii) provides standards and mechanisms for settling the transactions; and (iii) guarantees payments to the providers of goods and services in settlement of transactions with purchasers. I.R.C. § 6050W(d)(3); Treas. Reg. § 1.6050W-1(c)(3). Neither section 6050W nor the Treasury regulations thereunder provide a definition of “account” for purposes of the definition of a third party payment network.

Example 17, *Healthcare network*, of the regulations under section 6050W provides an illustration of circumstances in which there is a third party but no third party network. Treas. Reg. § 1.6050W-1(e), *Example 17*. The health care network is operated by a health carrier that (i) collects premiums from covered members, pursuant to contractual agreements between the covered member and the health carrier, to allow the covered members access to the health care network, and (ii) pays health care providers, pursuant to a separate contractual agreement between the health care provider and the health carrier, to compensate the health care providers for services rendered to covered members. The example concludes that the health carrier is not a TPSO operating a third party payment network that enables purchasers to transfer funds to providers of goods and services.

Analysis

Taxpayer is not a TPSO with respect to transactions conducted by _____ because _____ has only a single Provider and thus does not have accounts with a substantial number of persons. Section 6050W requires that in order for a third party payment network to exist, a “substantial number of persons” must establish accounts with a central organization. Neither the Code nor the Treasury regulations promulgated thereunder specify what constitutes a “substantial” number of persons, but it is clear that having only one account with a single Provider does not satisfy the requirement.

Taxpayer is not a TPSO with respect to transactions conducted by _____ because it does not enable purchasers, Taxpayer’s Customers, to transfer funds through the use of a payment network to providers of goods and services, the Providers. Instead, the Taxpayer engages in two separate agreements: (1) an agreement with Customers to _____ on behalf of its Customers and (2) an agreement with Providers to _____ for its Customers and pay amounts invoiced by Providers through an automated clearinghouse network, wire transfer, or check.

For Taxpayer’s agreements with its Providers, the primary business model of the Taxpayer is to _____, then offer those goods and services for sale to Customers through its websites. The rates that Taxpayer charges Customers for Provider’s goods and services are determined by Taxpayer, not by Providers. These rates are determined on a Provider-by-Provider basis and do not consist of the amount paid to the Provider plus a fixed or percentage fee. The service that Taxpayer provides is not focused on the settlement of a transaction between Customer and Provider. Rather, it is focused on _____ goods and services. When Taxpayer sells goods or services to a Customer, it is only obligated to pay the Provider of the goods or services the _____ and established in its separate contract with Provider. The _____ is not known to the Customer nor is the Customer a party to the Taxpayer-Provider

contract. The Customer and the Provider do not have a direct relationship.² Thus, Taxpayer's primary function is not the facilitation of the settlement of a transaction between the buyer and the seller of goods.

CONCLUSION

Based exclusively on the information provided and the representations made, we have determined that Taxpayer does not have a reporting obligation under section 6050W as a TPSO.

This letter ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Internal Revenue Code provides that it may not be used or cited as precedent.

Sincerely,

Adrienne Griffin
Senior Technician Reviewer
(Procedure & Administration)

cc:

² The agreements between Taxpayer and Customers and Taxpayer and Providers are not perfectly analogous to the agreements described in Example 17, Healthcare network, of the regulations under section 6050W, but they are similar to them in some respects. Specifically, the payments between Customers and Taxpayer and Taxpayer and Providers are not directly linked. In that manner, Taxpayer's situation resembles that of the health carrier, who collects certain amounts from covered members pursuant to contractual agreements and pays other amounts to health care providers under separate contractual agreements.